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## The Global Economic and Mining Outlook

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# Contents

## The Global Setting

Europe

North America

China

Commodity Prices: From Supercycle to an Era of Abundance?

Challenges and Headwinds

## Mining Investment

Commodity Demand

Global Exploration Outlook

## Policy Environment

Resource Nationalism: Is it a threat?

## Macroeconomic setting: a slow recovery

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Global growth has been around 2.5% for the past three years, but the composition has changed: stronger in the US and weaker elsewhere.

The US economy roared back in the second quarter and growth in the second half will be in the 3% to 3.5% range.

The Eurozone stalled in the second quarter, but weak growth is likely to resume in the second half.

Japan's suffered a tax related contraction in the second quarter, but will be a rebound in the third.

Recent Chinese data look weak, but the government will ensure growth remains at 7% or higher.

Other big emerging markets: India is a bright spot, but Brazil and Russia are in recession.

## A slow acceleration in growth

Real GDP growth

	2013	2014	2015	2016
<b>Eurozone</b>	-0.4	0.8	1.3	1.6
<b>Japan</b>	1.5	1.0	1.1	0.8
<b>United States</b>	2.2	2.3	2.7	2.9
<b>China</b>	7.7	7.3	7.1	7.1
<b>India</b>	5.0	5.5	6.3	6.8
<b>Brazil</b>	2.5	-0.1	1.0	3.2
<b>World</b>	2.6	2.7	3.2	3.6

## Why the anemic rebound?

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1) Hangover from the 2008-09 financial crisis. Consumer and business have both become more conservative, delaying consumption and investment.

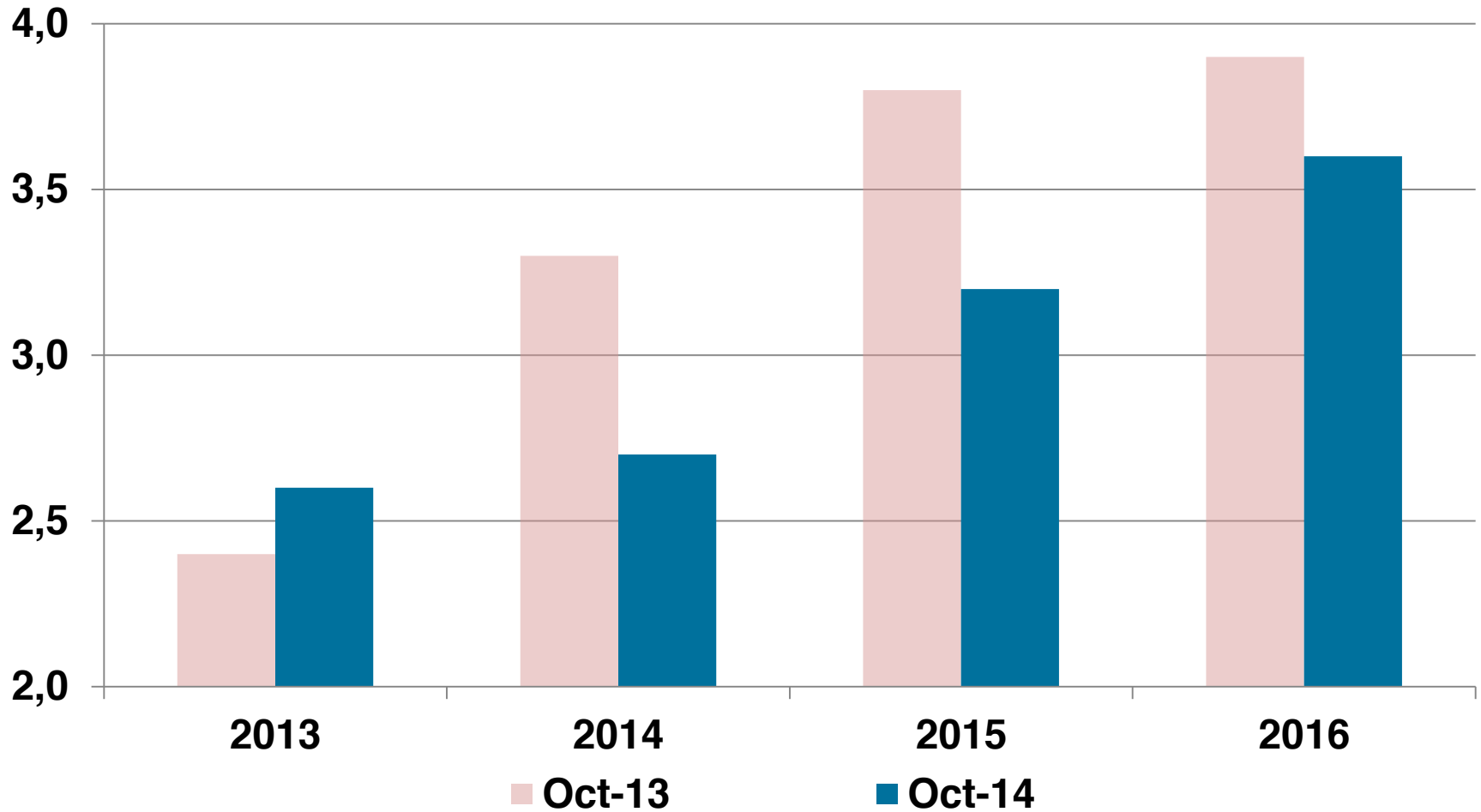
2) Legacy of the global trade imbalances of the 1990s and 2000s when China and other emerging markets ran large surpluses and the U.S. and others large deficits.

These large imbalances boosted emerging market growth and led to a surge in commodity demand. But this growth model depended on spending by America and Europe. When spending declined, the bubble bust.

3) Structural problem of maintaining maturing [i.e. slower growing] welfare states.

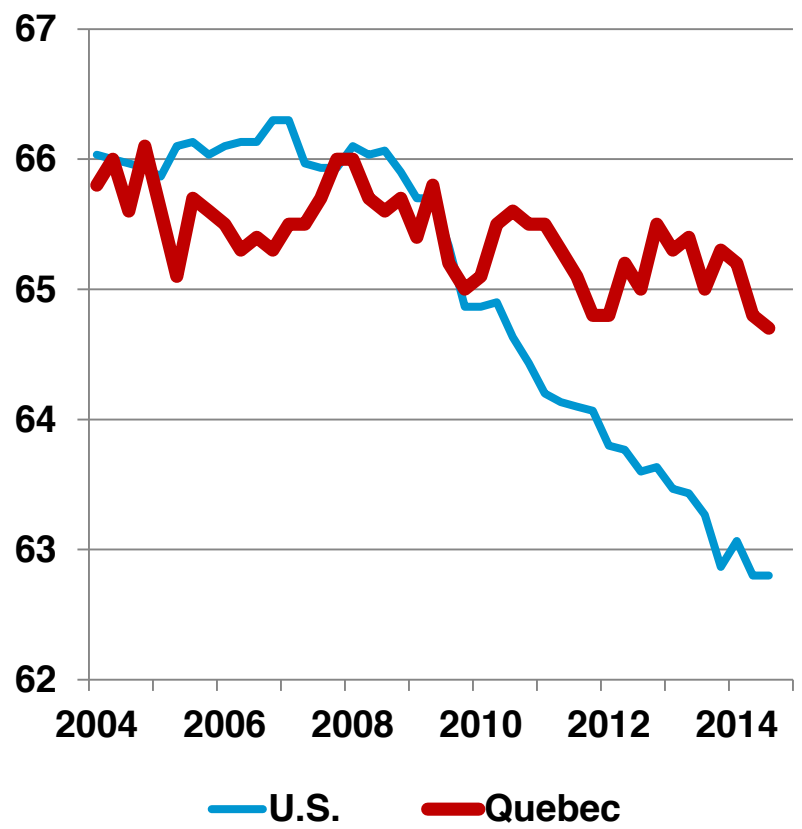
# A downward revision from last year

Global Real GDP, percent change

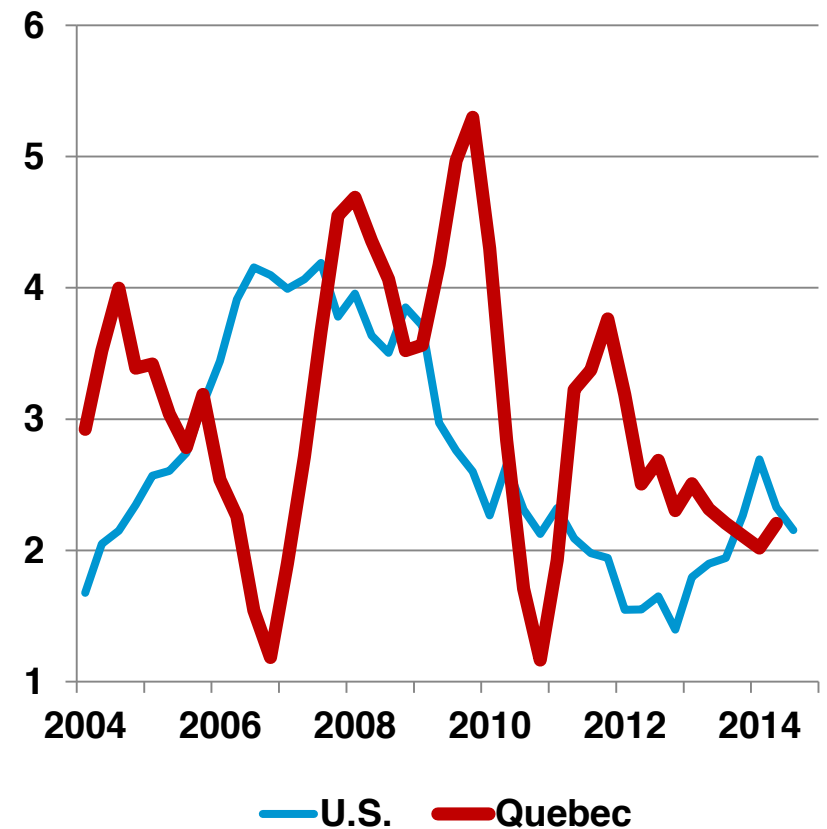


# North America: a bright spot – with a catch

Labor Participation Rates, percent

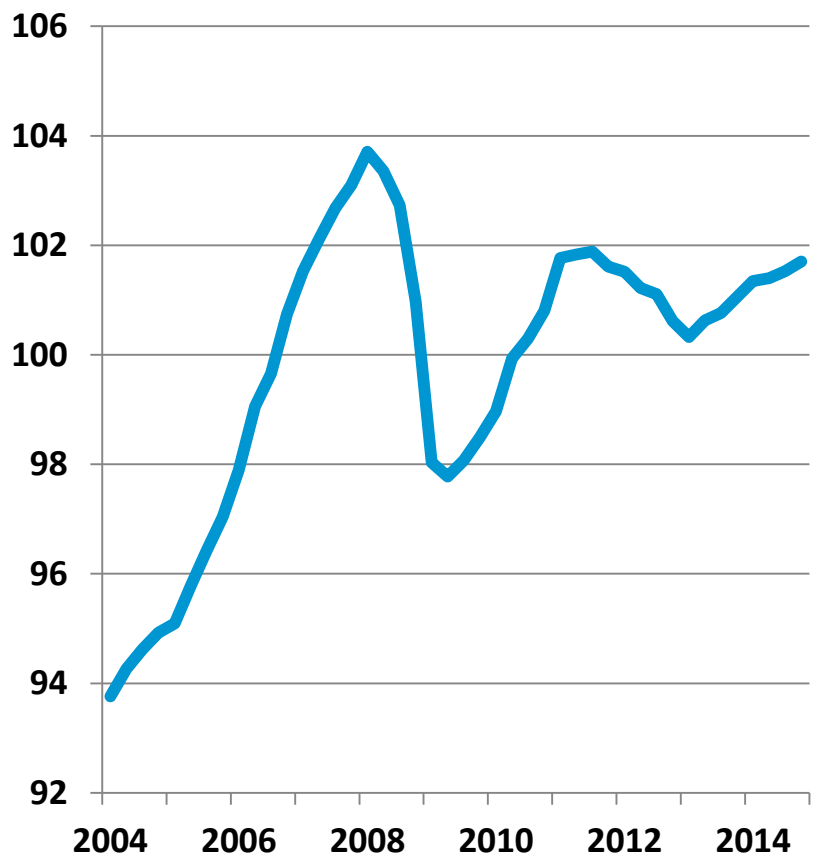


Average Hourly Earnings, percent change year ago

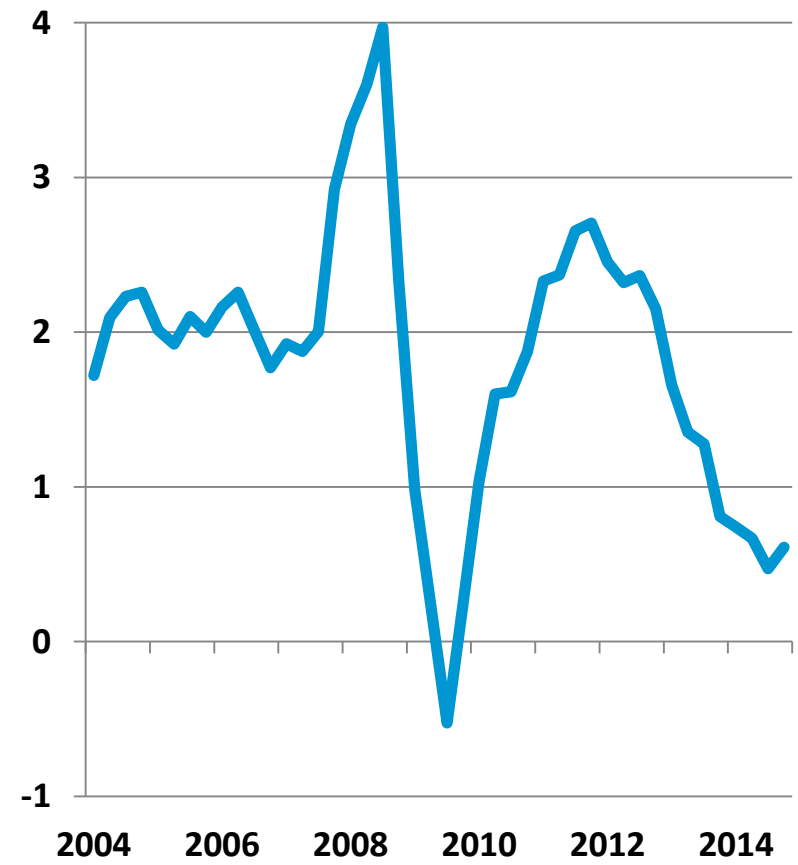


# Eurozone: the threat of deflation highlights the weakness of the recovery

Real GDP, Eurozone, Index, 2010=100



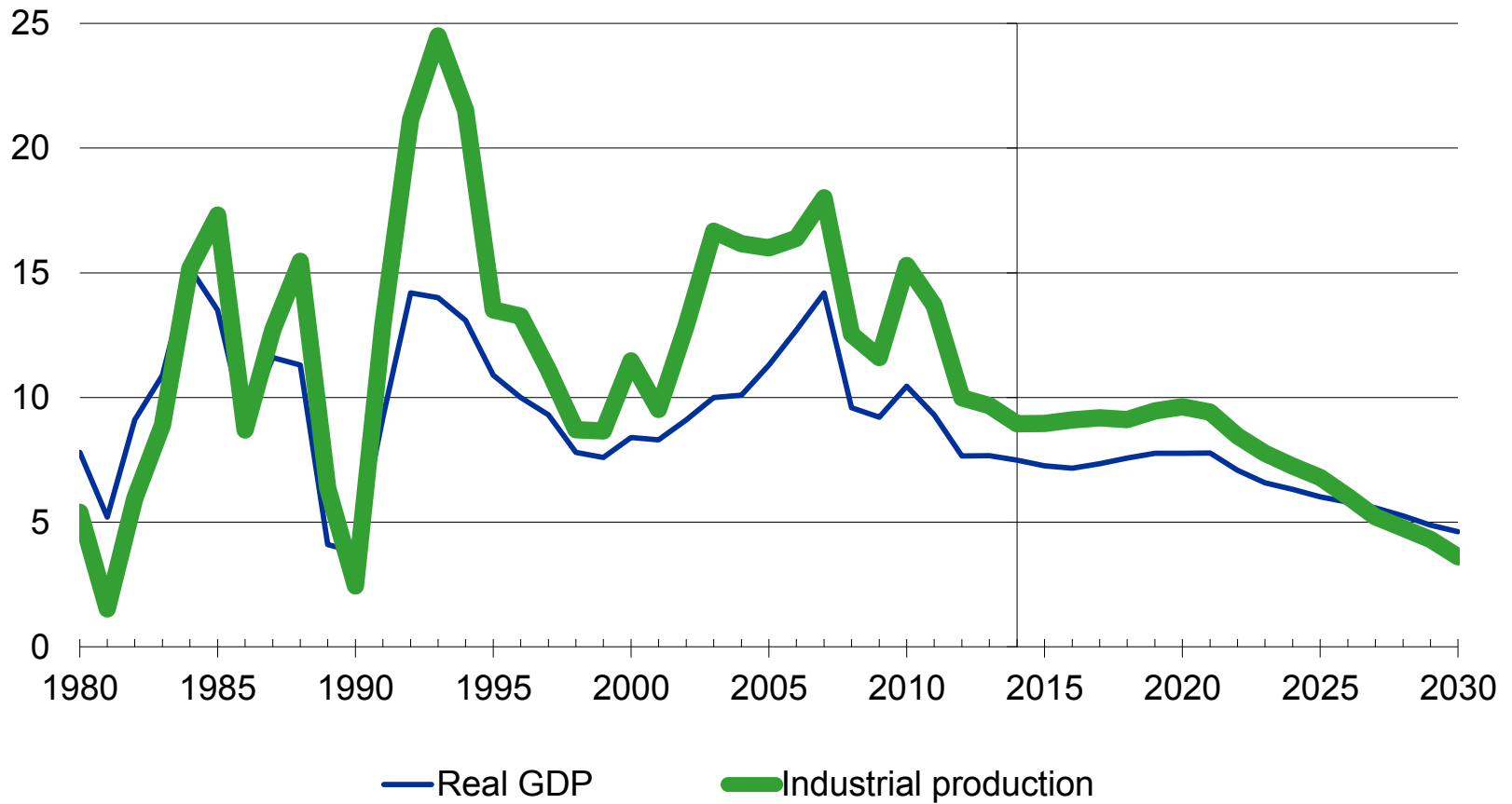
CPI, Eurozone, percent change year ago





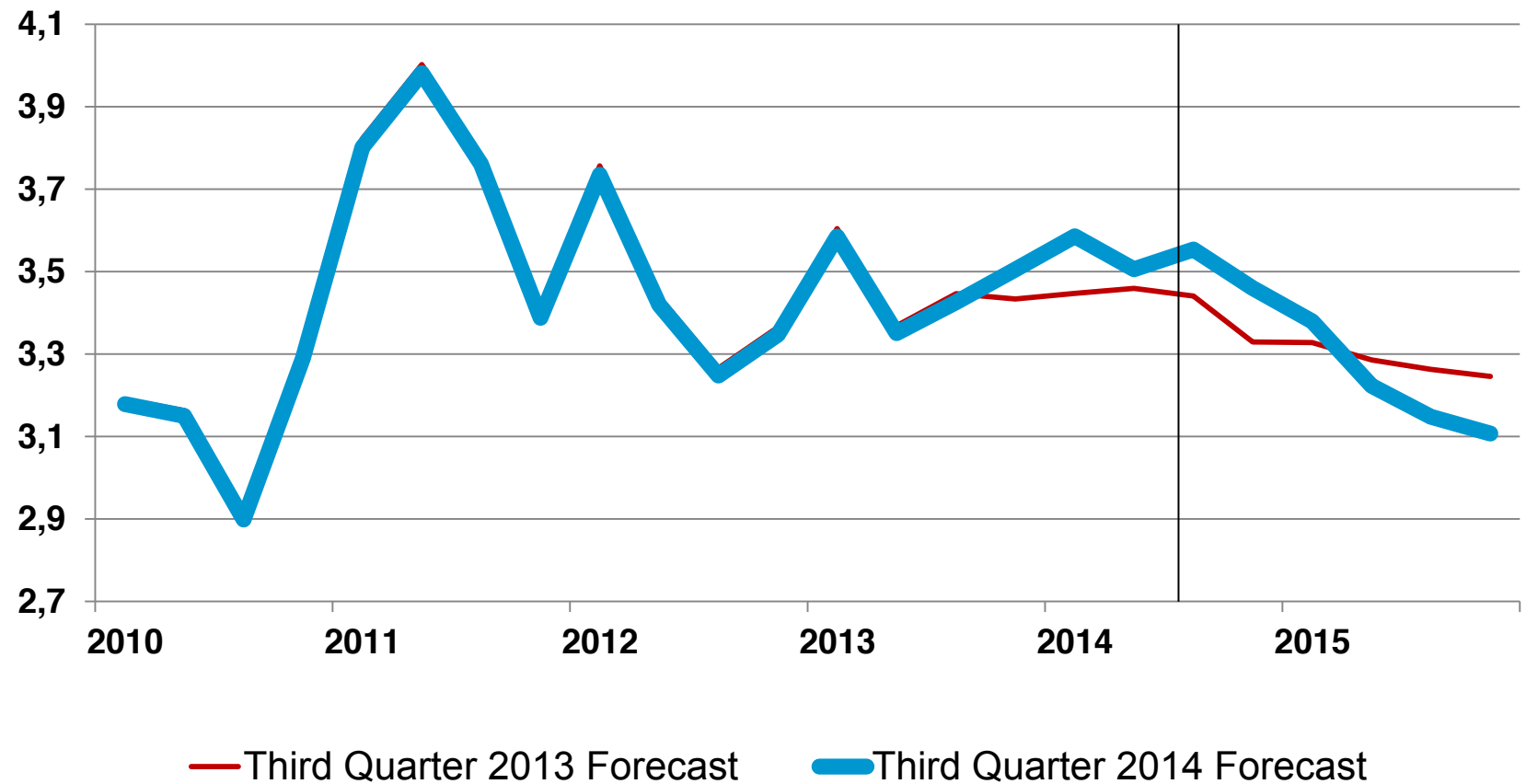
# China: a structural downshift

Real GDP and industrial production, percent change



# Commodity price inflation continues to look contained

IHS Materials Price Index, 2002w1=1.0



## **Cost Environment: from Supercycle to an era of abundance?**

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What does the recent drop in commodity prices mean?

Demand growth will improve, but not to the rates seen during the last decade

Capacity looks adequate or in some industries ample (steel, aluminum, rubber). There is room for this recovery to grow into

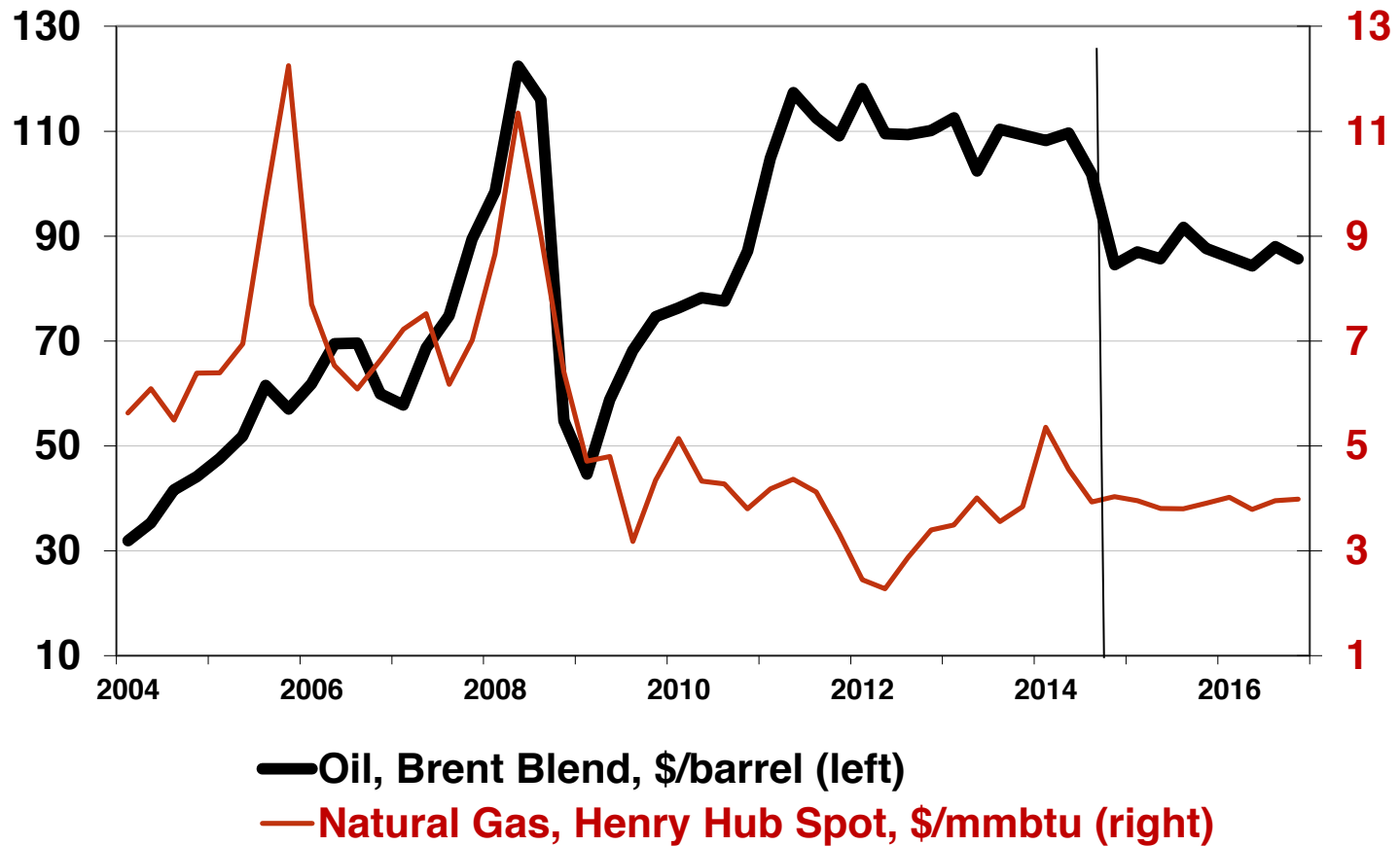
- Watch the PMI “leverage gauge” data closer for signs of a change

Investor demand will wane as monetary policy tightens, helping to restrain prices

**Markets looks supported rather than under pressure going forward**

# Energy markets – no cost pressure through the medium-term

Price of Dated Brent crude oil and Henry Hub natural gas



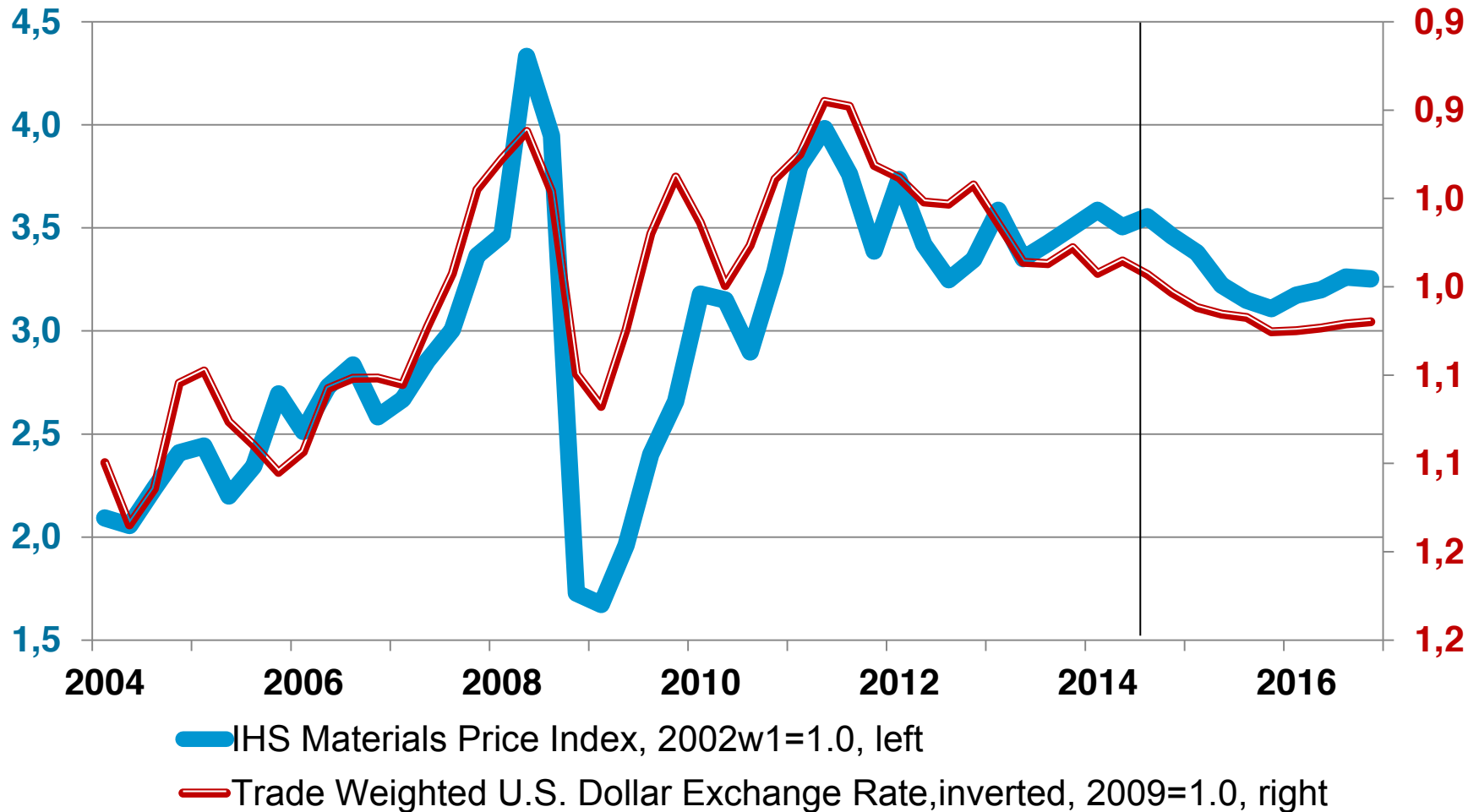
Source: IHS Energy

# Second reason price escalation remains muted: slower Chinese growth

Percent change year ago

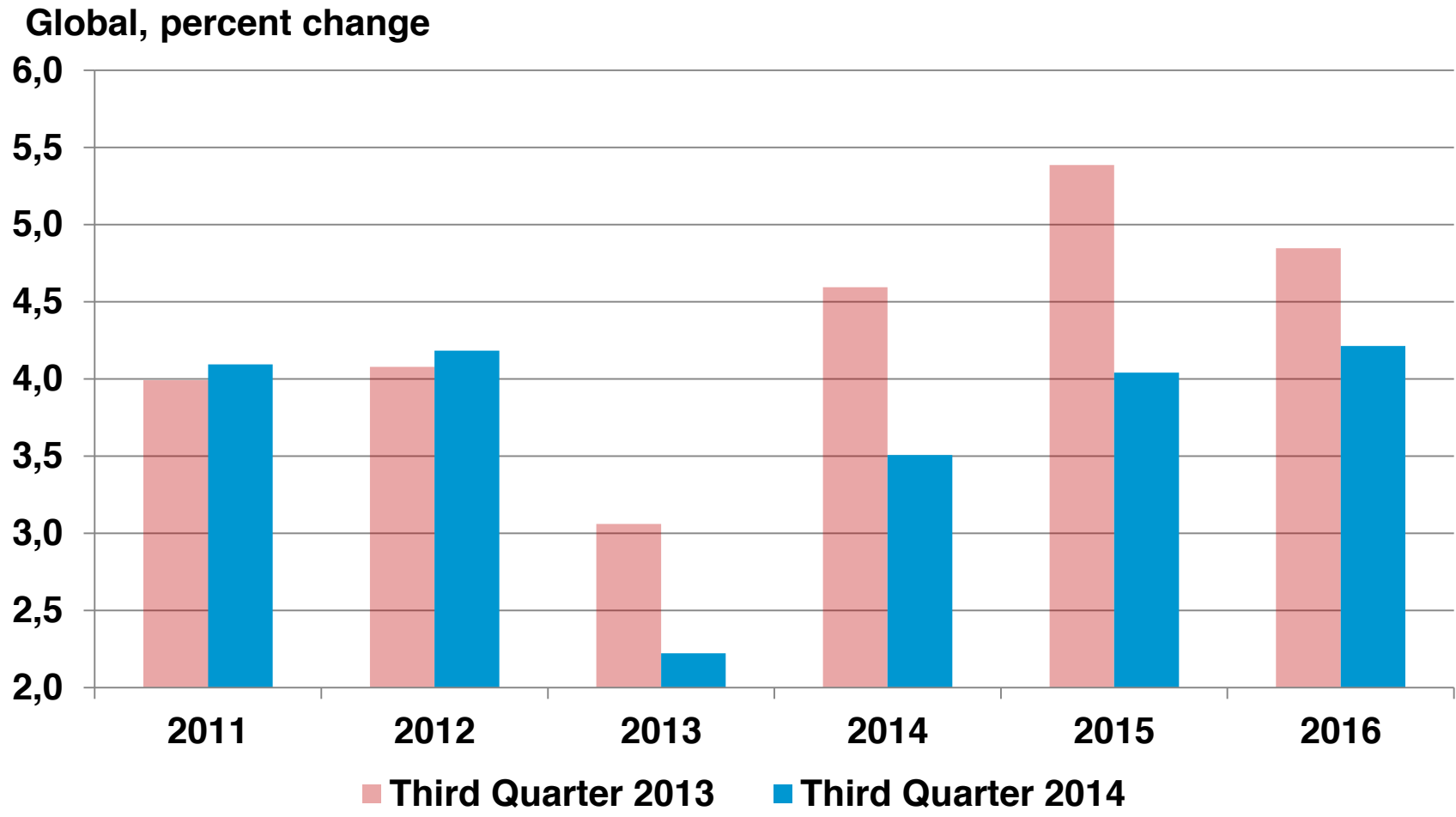


# A third reason to expect restrained price escalation: stronger dollar will weaken investor support



# Mining Investment

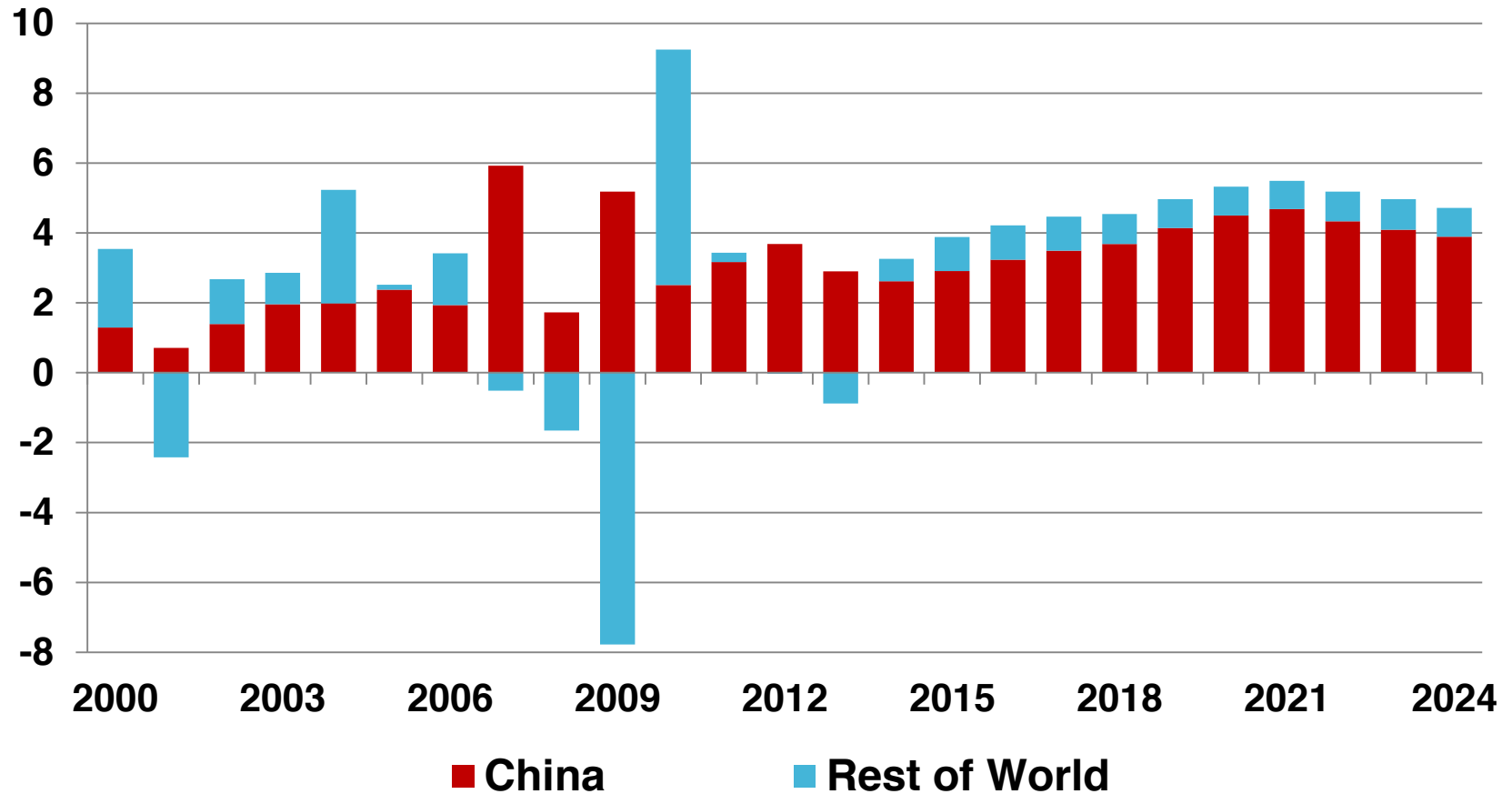
# Base metals near-term demand growth – a *slow* acceleration



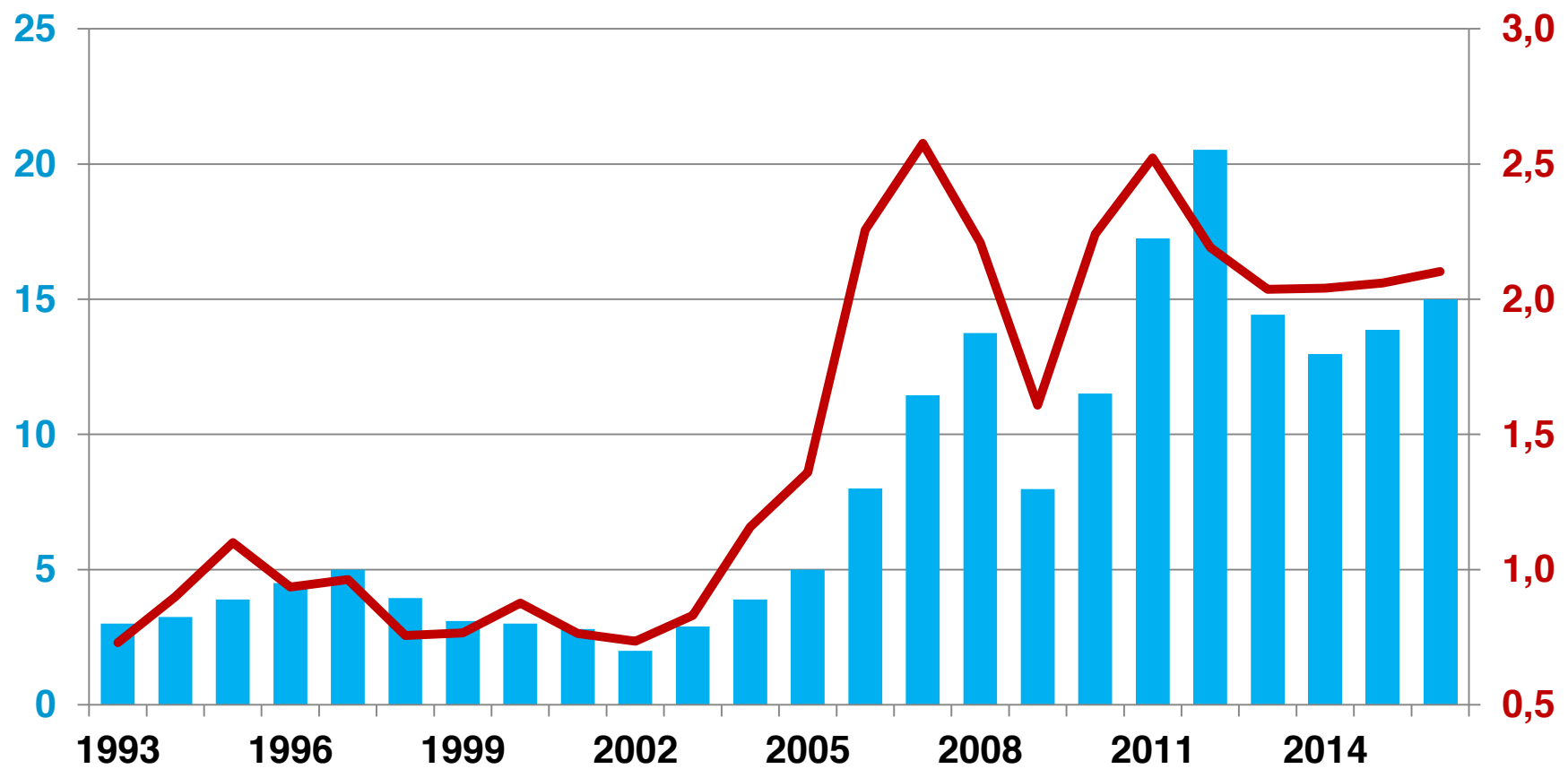


# Longer term challenge – dealing with the transformation in China and its implications for physical consumption growth

Incremental consumption growth, base metals, millions of metric tons



# The flip side of low prices – cuts in exploration budgets are setting up the next price cycle



**■ Company Reported Exploration Budgets\*, \$billions, left scale**  
**— IHS Index of Primary Nonferrous Metal Prices, 94-95=1.0, right scale**

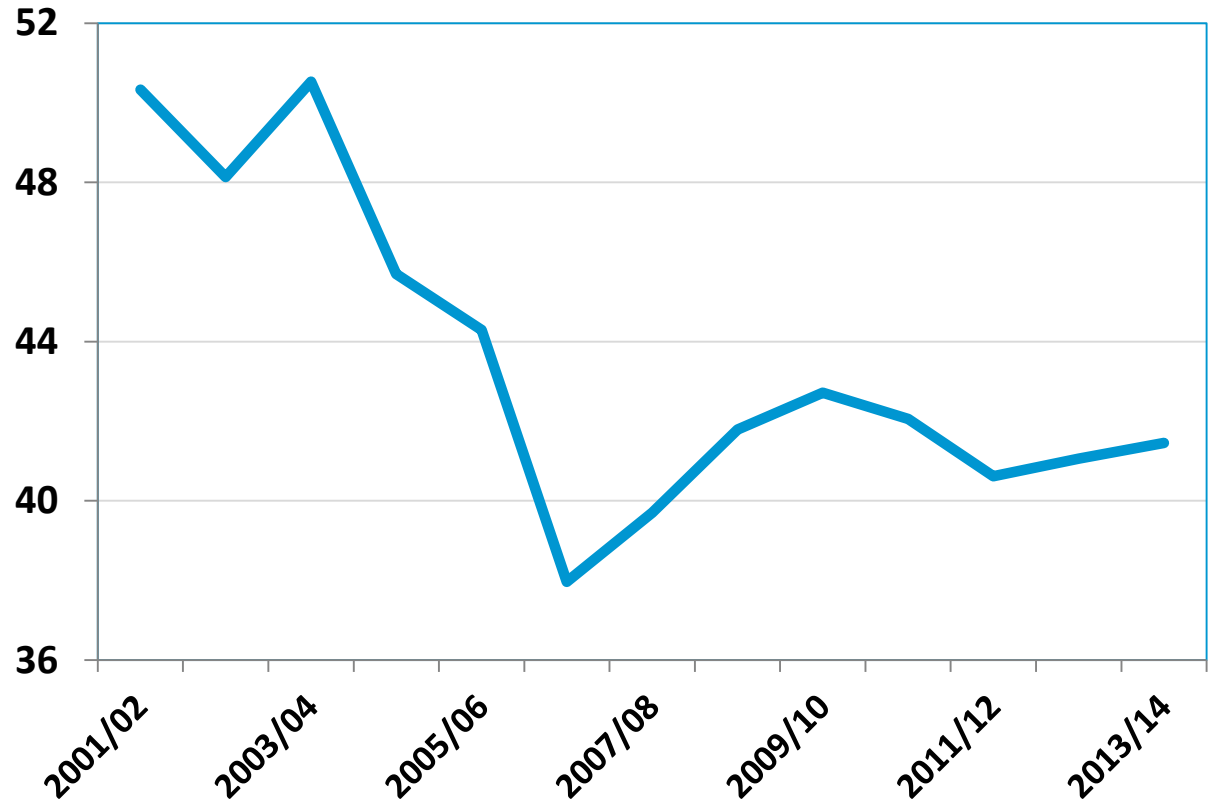
\*source: SNL Metals and Mining/IHS

# Policy Environment

# Resource nationalism as a supply side threat



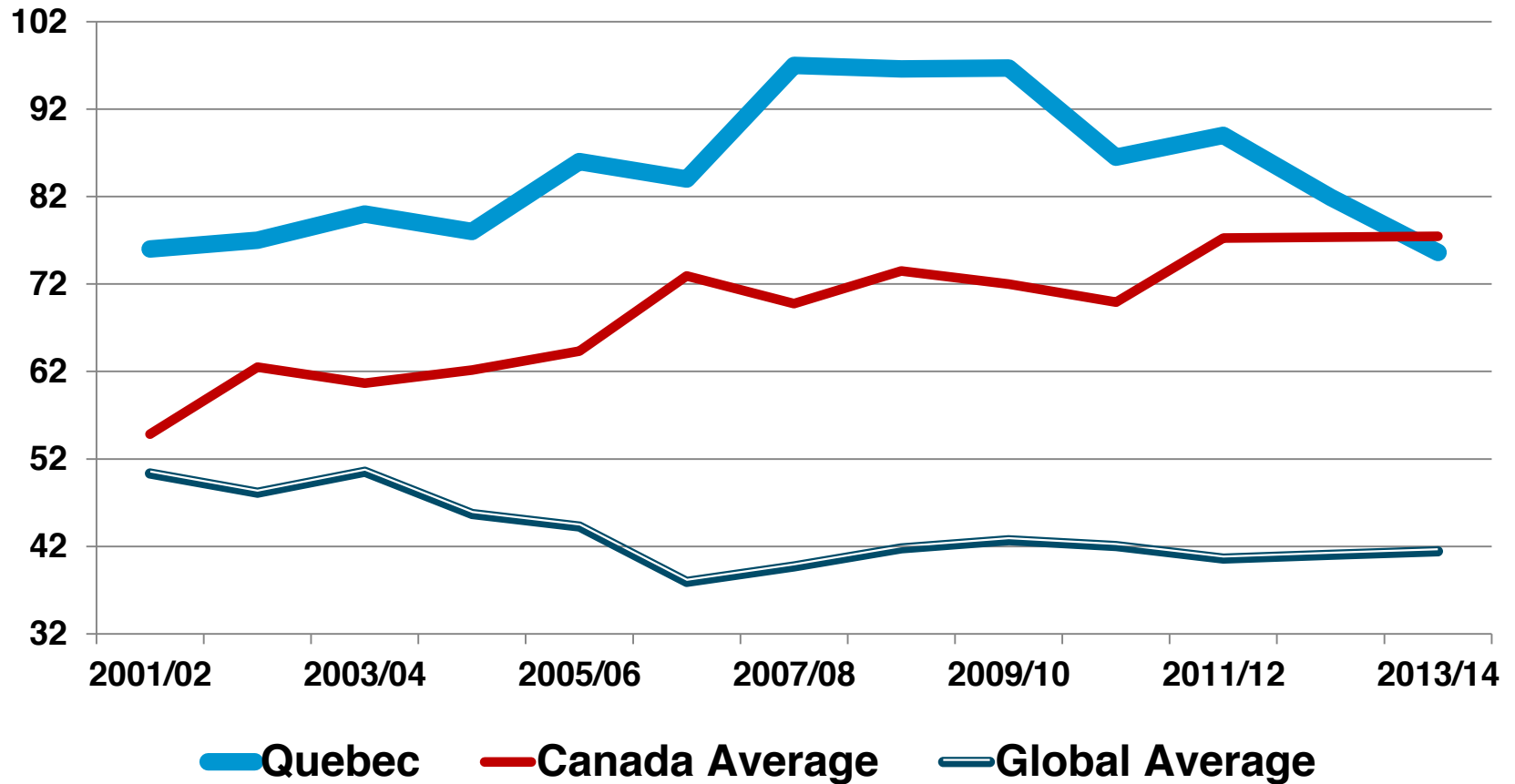
### Fraser Institute Global Policy Perception Index



Lower score signals a less attractive exploration environment

# Though Quebec and Canada compare very favorably

Fraser Institute Policy Perception Index



Lower score indicates a less attractive exploration environment

## Concluding thoughts

In a very real sense the supercycle continues to play out.

Discussions of the “supercycle” in the last decade never really considered a true cycle where prices could fall as well as move higher.

Although the lumpy capital intensive nature of commodity markets promotes price volatility, they are also inherently flexible. Over time they do adjust.

The data suggests that we are in a period of adjustment that will carry through the near-term.

But like the high prices of the last decade, lower prices are sowing the seeds of the next upswing.

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# Merci -Thank You

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